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The High Cost of Government and Some of the Evils

of

High Taxation

By

Dr. W. A. LINCOLN, F.R.C.S., Eng.

(Alderman of the City of Calgary)



Read Before the Convention of the

Union of Alberta Municipalities

29th June, 1933



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Annual Convention, held in Calgary.

FOREWORD

ON hearing from a friend that Dr. Lincoln of Calgary had given considerable study and thought to the subject that has troubled the nations from the dawn of history, viz: "Taxation and the Cost of Government," I approached him as Secretary of the Union of Alberta Municipalities and asked if he could give an address on this engrossing problem to the Mayors, Aldermen and Councillors of the Cities, Towns and Villages of Alberta, who would be assembled in Convention, at Calgary, to discuss the pressing needs of Civic Administration during these depressing times in Municipal Affairs.

To this Dr. Lincoln, who is also an Alderman of the City of Calgary, kindly assented.

At the close of the address Mayor Bullivant, President of the Union, who was in the chair expressed the appreciation of the gathering in saying it was the finest address he had ever heard on the subject.

A resolution was at once passed, unanimously, by the delegates to the Convention that the Address should be printed and copies sent to all Municipal officials in Alberta. Since then numerous requests have been received for copies, including one from the Rotary Club of Calgary, and from others who are deeply interested.

While the issue lasts additional copies may be obtained on application from:

J. E. FRASER,
Secretary and Treasurer,
Union of Alberta Municipalities,
Wetaskiwin, Alberta.

Municipal Finance With Some Considerations on Cost of Government

By Dr. W. A. Lincoln, F.R.C.S., Eng., Alderman, Calgary

I did not intend to say anything about State Medicine as to some extent I am an interested person. I am a physician, practicing, and therefore you might accuse me of having an axe to grind.

This question when decided, must be decided by the public for the public good or otherwise and if I can discuss it from that angle, and I think I can, I would like to offer a few remarks purely from that standpoint and saying what Dr. Wade has already said I think probably the medical profession, if a vote was taken on that at the present time, would be in favor because a large proportion are not making a living at the present time.

When you go into the question of State Medicine you change the complete basis between patient and physician which has been the basis of medical practice for long ages and while on the face of it it would be of some particular advantage because the individual would be able to obtain what at the present time he has difficulty in obtaining, yet there are a great many evils present in a system of this nature which you ought to carefully consider before you present a resolution of this nature.

There was a strong committee in the United States studying this matter for five years, very outstanding men. They presented a voluminous report which I have studied carefully and they say this: That it would cost at least \$20 an individual and probably more than that. They put a rather wide spread in their figures. They say from \$20 to \$40. If it only cost \$20, the minimum figure, it would cost this province \$14,000,000 which would have to be raised by taxation.

Another thing, when we come to operations I seriously doubt whether the people themselves would be satisfied they would get the measure of medical service they do now. For instance, I get up in the middle of the night, at any time, irrespective of whether they have money or not and give my best service. I doubt if I would do that if I worked for the Government. If it becomes a Government service you are putting the whole thing on the basis of government officials. Now you have a good deal more confidence in civil servants as Government officials than I have perhaps and while I do not want to say anything derogatory, I have never found them intensely enthusiastic about working overtime or putting in long hours. The medical profession would control what would be done. We would pretty well lay down the rules in regard to what we receive and our methods of carrying out these services and you could not help it. I rather have the impression perhaps we would not hurt ourselves if we were working for the Government instead of individually and I rather think appointment by government has a great many difficulties and before you hastily pass in favor of this thing know a little about it.

I was in Russia and Russia has state medicine. They have socialized the medical profession, hospitals and everything else. I had the pleasure of going about with some of the Soviet officials. I asked them a good deal about the medical profession and hospitals and I wanted to see them but he did not allow me. He did not refuse to but he did not give me the opportunity, he did not arrange it. I said to him, "You have a Government doctor?" "Yes, in each district," and he also told me that they had private doctors as well. I asked how that came about and he said: "We allow it if the people desire to have a private doctor but we tax him very heavily, and make life as difficult as possible but allow him to carry on." "I said to him, "You yourself, a Soviet Official, would you get a government doctor or a private doctor." He said, "The government doctor would get here next week perhaps, so I get a private doctor and pay the bill. I would rather do that than bother with the State doctor." That was told me by a State official in Soviet Russia. You want to think a bit before you put the whole facilities for health under government. Medical services bear sometimes hard on certain individuals but the total expense, and I made some investigations in regard to that, the total expense in carrying on professional services is nothing to what it would be under government service and somebody has to pay that.

With these remarks I will now go on with my talk.

COST OF GOVERNMENT AND THE EVILS OF HIGH TAXATION

Read before the Union of Alberta Municipalities, Calgary, June 29th, 1933

History of civilized people presents a varied picture of the struggles, conflicts, aspirations, and defeats of individuals and nations in their endeavor to rise above the limitations of nature and secure for themselves happiness, security, and some measure of prosperity. We see tribes, nations, or even empires rise to a high degree of civilization and comfort, hold the stage for a varying time and then slip down to the common level or even become entirely obliterated. We have seen various forms of government, from extreme autocracy to varying degrees of democracy. We have even seen extreme socialism and communism being tried long before the present experiment in Russia. And yet forms of government have not proven sufficient. The finest form of democracy the world has ever seen was developed in ancient Greece yet it did not endure. Religions have come and gone, they have developed and exerted varying influence on a country, and while their lack may have had some influence in dragging a country down, their presence has not proven sufficient of itself to hold a nation up. The birthplace of christianity has spent the most of its existence under pagan rule and its founders have been scattered to the four corners of the globe. Why do countries rise and fall? Have their history any lessons for us? I think so. How else can we learn except by the experience of others? One of the principal determining factors, in all countries has been the use and method of handling public funds. Excessive taxation, graft and corrupt practices which often accompany it, has always preceded the downfall of nations. In ancient Greece and Rome practically all our present forms of taxation

and some others were used to squeeze the utmost revenue from the people,-- to be used by the politicians to provide amusements and free food for the multitude, as a bid for their favor and to secure a firm hold on public office, until eventually its weight bore the country down. In more modern times, preceding the fall of the Spanish Empire, and before the French revolution, taxes rose to unprecedented heights so that the people were crushed by the load. The collection and use of public funds has had much more to do with the stability and endurance of nations than has that of private fortunes although the latter always bulk larger in the public mind. Thus I deem it opportune to consider where our municipal and other public finances are leading us in Canada in the light of history. Are we building a structure which will endure and bring happiness and well being to our citizens, or are we overburdening ourselves with debt and its consequent high taxation, which inevitably lowers the standard of living and impoverishes the people for long periods.

Government is a form of social organization which has developed because, in the long run, it affords the means of supplying man with certain services more efficiently and economically than these could be supplied each for himself. The tendency of modern times has been to extend these functions to include more and more of the activities of life, until, as in Russia, everything is managed by the state. What one eats and drinks, where one lives and how, what one does and how much one earns, even one's amusements are prescribed by the state. Such a condition can only function by exercising the most extreme form of autocracy. One is only allowed to breathe on one's own, and even this right is taken away on very slight provocation. It is interesting to note in passing that Lenin, Trotsky, Stalin, Mussolini, and Hitler all came up through the socialistic school. Let me point out that in a democracy at any rate its success depends upon the support and strength its deponent citizens bring to it, not how much they can get from it. Autocracies can be made to function by force if necessary, but democracies must succeed or fail by the amount of interest and effort put into them by their individual citizens. Excessive reliance upon government is a modern tendency and may be extremely demoralizing to any people. If our business is sick we ask the government to do something about it. If our competitor's business is too vigorous, again we seek protection from a beneficent government. When interest rates are too high, some expect the government to lower them, and when they are too low, others demand assistance in getting them up again. If crops fail, the government is blamed for the high prices. If they are abundant, others expect the government to keep the prices up. If we get into debt, we ask the government to protect us from the consequences of our acts. If we can not get into debt, we ask that credit facilities be extended or taken over by the government so that we may contract debts. If we are unable to earn the average wage, we ask for a minimum wage law, and if any earn more than the average wage, we ask that the government take away some portion of it, and so on, ad infinitum. It would seem sensible to decide how much of our income should be spent on government service worthy though it is, and secondly whether on many services the government can spend our money more economically and efficiently than we can ourselves. I realize that the extent governments engage in business is a controversial question and do not propose to

enter it. Remember that governments are the largest single consumer of wealth and that no country has ever succeeded in taxing itself into prosperity. We hear a good deal these days about purchasing power and the danger to it by government economies. Governments only get money by taking it from its citizens. The more it spends the less its citizens have to spend. The less it spends the more its citizens have to spend, so that the total purchasing power is not altered in any case.

Whither are we drifting in Canada in regard to government finance? Federal, provincial and municipal expenditures in 1914 amounted to about 300 million dollars and the national wealth was about 11 billions. In 1922 our expenditures rose to 589 millions and the national wealth to 22 billions. By 1929 our expenditures rose to 732 millions, and our national wealth to 29 billions, and our net national income to 4 billions. Our expenditures for government in this, a very prosperous year, was 18.5% of our national income. After two years of depression, namely, in 1931, our expenditure for government rose to a little over a billion dollars while our national income shrank to somewhere in the region of 3 billions so that in that year we spent one-third of our total income on government. The figures are not available for 1932 but it is known that the costs of government decreased very little while our national income was markedly lower so that the proportion of our income taken from us was still further increased. Or take it in another way, if all the income above statutory exemptions, of those assessed for income purposes was taken instead of the percentage that is taken, it would not pay the cost of our governments. Or again, the value of all the field crops in that year would not pay our cost of governments. Or to look at the huge debts that have been accumulated by all governments in Canada, we see that they now amount to \$6,539,728,055.00, probably one-third of our present total national wealth. Or if you take our per capita debt and compare it with other countries expressed in dollars, you will find that it amounts in Great Britain to \$808.00; Canada, \$654.00; France, \$466.00; U.S.A., \$131.00; Italy, \$113.00; and Germany, \$39.00. It may be thought that this has been brought about by the costs of war but this is only partially true. Since 1914 governments in Canada have contributed to railroads more than the total cost of the war, or again, the increase of our debts since the war far exceeds the total cost of the war. All governments have spent on an average \$134.00 for every one hundred received ever since 1918. Provincial governments have been the worst offenders in this regard and have spent \$152.00 for every \$100.00 received from taxation. We have had to borrow to help pay our current expenses and this has resulted in the piling up of debts with its consequent increase in our fixed charges and interest payments so that now 23% of all tax monies on the average is taken for this purpose. Our provincial government spends nearly 50% of its revenue for this purpose. We hear considerable demand that our interest payments and fixed charges be reduced, but how can we scale down our debts and consistently year by year add to them? The province of Alberta spent 10 million dollars in 1922 and in 1932 this had risen to 18 million, and the public debt went up by leaps and bounds, rising as much as 19 million in one year, until last year the total debt reached the colossal sum of 143 million. It is interesting to note in passing that 22 million of this represents a dead loss on various commercial ventures, together with capitalization of yearly

deficits. To come still nearer home, cities, towns, villages, and municipalities in Alberta spent, in 1925, in round figures 9 million dollars and had outstanding arrears of taxes to the amount of 5 million. This expenditure rose in 1931, with not much change in population and far less ability to pay, to 13½ million, while the arrears of taxes rose to 13½ million. This as you know has produced widespread confiscation of property of many of our citizens, especially that of the weaker and smaller land or home owner.

An era of high taxation produces very definite effects on society quite irrespective of whether the tax money is spent in the most economical manner and in the best interests of its citizens and for the most worthy objects. Let us see what the effects are and whether the benefits are worth the price.

1. Perhaps the most important is that high taxation alters civic action and the proper relationship between governments and its citizens. In the ideal democracy the citizen produces or initiates policies and takes part in the framing of regulations by which he himself is governed. He is to some extent the maker as well as the object of public action. In ancient Athens all public questions were decided by an assembly of all citizens over twenty-one years of age. In the early history of the United States, among the smaller communities all such questions were decided by the town meeting. High taxes tend to produce a people that is administered and governed but not consulted. Canada shows considerable evidence of this. During the recent federal session, when a 40% duty was put on sugar, were you consulted? Or was the opinion of the people much considered? Also, notice the autocratic language used on income tax letters or other demands for money by various governments. Again, try and telephone the customs office in Calgary for any necessary information you may require, and you will find that while they have a telephone for their own convenience, it is not listed in the book nor is central allowed to give it to the public so that you will be compelled to spend your time walking around to their office and there await their pleasure.

2. High taxation interferes with thrift and savings. It takes from the hard working, saving, careful, self-denying citizen and gives to the improvident and wasteful. It discourages that initiative and productive saving essential to the success of any country. Sir Josiah Stamp recently said "that a democracy that will not allow its wealthy men to accumulate wealth, nor will not save itself, must surely sink in the scale of civilization." For any country to progress and especially for a young country like Canada, a constant supply of new capital must be available. Whatever you may think about capital, it is the life blood of industry. New tools and the constant replacement, together with the necessary new forms of equipment are essential to any progress. Even Russia did not abolish capital and is now admittedly suffering from its lack. When I was in Russia next to propaganda urging participation in industrial development, I saw more demands being made for investment in government bonds than any other single thing. They offered as high as 10% interest as an inducement, and in some cases actually compelled investment by withholding a certain percentage of salaries. In 1913 bank loans to governments in Canada totalled only 4.8% of their assets, while in 1931 this proportion had risen to 24.6 and last year it was over 40%. Of money available for bond issues ordinarily

governments took about 65%, leaving 35% for industry, but recently they have practically taken all, leaving next to nothing for industrial development.

3. High taxation always reaches the ordinary articles of consumption. Some things like the sales tax are assessed on all commodities, and some commodities such as sugar, tobacco, gasoline, etcetera, are specially taxed. Many other taxes are passed on to the ultimate consumer so that the cost of living is very decidedly raised. This of course bears more heavily upon the lower and middle classes.

4. High taxes in proportion to their severity create an increasing difficulty in just apportionment. Size of family, physical and mental handicaps, dependents, misfortune, etc., can not all be provided for. Speculators, gamblers, and irregular methods of earnings can escape so that it never bears equally on all classes of the community.

5. High taxation tends to constantly increase. A high tax tends to kill itself after a while by drying up its source and thus produces less, so that when this occurs another tax in some other direction must be put on to make up the deficiency. Our last federal budget was a good example of this.

6. High taxation increases the instability of property. It forces the more burdened to sell to the less burdened. We are seeing a great shifting of property in this province due to this cause. People are unable to hold and so they sell at a sacrifice or give it up altogether for taxes, when the city or municipality endeavors to find a new purchaser. This bears more heavily on the smaller and poorer land holder who is unable to protect his small holdings and is forced out. Wealthy people and corporations take advantage of this to buy often below a fair price.

7. High taxes make for and encourage speculation and gambling. The results of these activities can not easily be taxed so that men's minds become more engaged in shares and speculations, and less and less in production and the owning of real property. I believe this result is not sufficiently recognized. The difficulties of real production and high taxes induce people to try and make something for themselves by a lucky throw, on the side, which they may keep. This as you know most often ends by further loss.

8. High taxation increases the inequalities of the distribution of wealth. The very poor, such as those on relief, are not effected at all while the wealthy are able to shift about and evade the law, possibly quite legally, as shown in the recent Morgan investigation in New York. Soaking the rich has always been a popular pastime, but as far as raising revenue is concerned it has never been very successful. If done for social reasons or with the object of destroying a class, it may be a different matter. During the French revolution, very drastic income taxes were imposed, designed purposely to fleece the rich, and some of the worst characters of the revolution were put in charge of their collection, and were given the added power of assessing what they thought a man ought to pay and also given most autocratic powers to enforce their demands. Strange to say, it did not produce much revenue. It almost completely ruined all business and, as one historian has said, it

succeeded only in taking the bread from the mouths of the common people. The same thing happened in the Russian revolution. The properties of the rich were confiscated but it did not make the common people any better off although about five million people were killed in the process. The great middle class, as usual, suffered most.

9. High taxation produces a vast increase in beaurocracy, both in numbers and strength. This is inevitable. The assessment, gathering and spending of government monies in its various forms produce a vast horde of employees and civil servants until it controls the state above and the private citizen below. The proportion of tax money used up in supporting these officials is often large. Beaurocracy tends everywhere to become more and more autocratic and intolerant. Departments and bureaus once established tend to expand and increase and persist even long after their usefulness disappears. You find departments established to make studies on such subjects as "more and better funerals," "the proper designing of small boys' pants." The United States government in 1931 spent 52 thousand dollars on the study of the life history of worms. In the United States now one out of every twelve employed persons is a government official, and while I am unable to obtain exact figures, I suppose there are about the same in Canada.

I hope I have said enough to convince you of the evils of such high taxation as we have developed in Canada and especially in Alberta. If this be so, it is our duty as good citizens to bring about a change; first, in the sphere in which we are most intimately concerned; namely, our cities and municipalities, and, secondly, in our province and dominion. All governments are controlled eventually by public opinion, and we get just about what we persistently demand from our representatives and officials. Have not many of these evils arisen because of the demand for all kinds of services and expenditures which we now find are beyond our means? The trouble is there has arisen too many new ways of spending money but not enough new ways of getting it.

What can we do about it? I suggest several things which appear to me to be necessary.

1. That the cost of governments, federal, provincial and municipal, should be reduced. By far too large a proportion of our income is going for this purpose, thereby raising the cost of living and generally impeding our proper progress.

2. All governments should balance their budget and live within their income. It is impossible to go on increasing public debt much further without bankrupting the whole country. It is practical and possible to estimate what a reasonable tax will bring in and base our expenditures on this rather than the usual custom of preparing our budget and then casting about for a means of raising sufficient to cover it irrespective of how much hardship it produces.

3. An effort should be made to reduce interest and the so-called fixed charges. This can be brought about not by repudiation or legislative enact-

ment, but by an honest effort to repay and reduce the debt and by proper economies and the elimination of waste and extravagance. If we live within our income and meet our obligations, we can establish better credit and thus obtain lower rates of interest.

4. More attention should be given to the limitation and safeguarding of our borrowing powers. These are largely based on assessment figures, which vary in their method and in their application and also in times of prosperity or depression, so that under certain conditions not sufficient checks are available. This is well exemplified in boom times when a community may be hopelessly ruined by its borrowings. Regulations should be more uniform and more carefully applied and have a wider range of action. As you know, there is at present no check on provincial and federal expenditures.

5. More attention should be given to sinking funds and provisions for the repayment of our public debt. Cities and smaller communities usually borrow with definite provisions for repayment, although the regulations are by no means uniform nor strictly observed. Our provincial and dominion governments plan to refund and hand their whole debt on to posterity. This makes for extravagance and lack of care in spending and accumulating debts. Some definite provisions for repayment should be made by all governments with some definite amounts contributed for this purpose from each year's revenue.

6. More intelligent studies of taxation and public finances should be made. How much of our national income should be so used and how best obtained with least cost and injury to initiative and business development. How various taxing powers should be apportioned to our different governments, instead of a mad scramble to see who can get the greatest stranglehold on the poor defenceless taxpayer with its consequent inequalities and overlapping. This ought to be an appropriate subject for our universities and economists. Most tax commissions endeavor to find new methods of taxation. I suggest that we have one to investigate how to reduce taxation and government expenditures.

Really, is it not time we stopped kidding ourselves and frankly admit what we all the time know if we be perfectly honest; namely, that our troubles, economic and otherwise, are largely man-made? Are we not alone responsible for this depression and for the economic plight in which practically every public body in Canada is floundering as well as the impoverishment of our own pocket-books, which for four years we have been blaming on capitalism, monetary systems, banks, financiers, exchange, gold standards, etcetera; in fact, most anything so long as it does not involve us personally, and preferably something of which we have very little intimate knowledge. Has it not been greed and selfishness in individuals, in groups, and in countries that has been the basic underlying principle which has brought us where we are? Is it not true that we are the most fortunate of the generation of men? In a single lifetime science has given us more power over nature than in all recorded history. Have not our harvests been bountiful? Has not nature poured out in vast quantities the good things needful for a full and happy life? Has not life itself during this generation been lengthened twenty years and many of its terrors, diseases, and sufferings been removed

by medical science? Are not our natural resources, technical knowledge, and individual skill sufficient to afford to every man of this world's teeming population, physical comfort, adequate leisure, and access to everything in our rich heritage of civilization, that he has the personal capacity to enjoy had we but the sense to lay hold of it? I put it to you that what the world needs is not a new system but a new heart. Not so much concern about gold but more with the golden rule. A return to those principles and virtues which alone can make a nation great. Honor and honesty in private, in corporate, and in public life, unselfishness, simple living, morality in personal and family life, a willingness to work and sacrifice ourselves if necessary to give full value for what we receive, rather than the constant chasing of the will-o'-wisp of speculation and the ceaseless desire of getting something for nothing. The elimination of both public and private waste and extravagance, resulting in the living beyond our means both in public and in private. Have we not lost our sense of values, and while there are many false prophets crying in the wilderness, is it not as true today as when first written "that where there is no vision the people perish"?



Union of Alberta Municipalities

Organized 1905

OBJECTS

3. The objects of the Union shall be the general improvement of every branch of Municipal Government and Administration by the following means:

(a) The perpetuation of the organization as an agency for the co-operation of Alberta Municipalities in all questions pertaining to Municipal Government and Administration.

(b) In particular the guidance and improvement of legislation, both of the Dominion and Province, upon municipal questions, and the betterment of municipal interests generally.

(c) The holding of Annual Conventions for discussion, information and resolutions on the above subjects.

(d) The securing of united action for the protection of individual Municipalities and Municipal interests as a whole against legislative enactments or other encroachments of corporations and others.

Further information regarding the Association, what it has accomplished and the benefits to be derived from membership, can be obtained from

J. E. FRASER,

Sec.-Treas. U. of A.M.,

Wetaskiwin, Alta.

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